

VZCZCXRO0432  
RR RUEHCN RUEHGH  
DE RUEHIN #1288/01 1020852  
ZNR UUUUU ZZH  
R 120852Z APR 06  
FM AIT TAIPEI  
TO RUEHC/SECSTATE WASHDC 9662  
INFO RUEHBJ/AMEMBASSY BEIJING 5049  
RUEHUL/AMEMBASSY SEOUL 7757  
RUEHKO/AMEMBASSY TOKYO 7619  
RUEHCN/AMCONSUL CHENGDU 1184  
RUEHGZ/AMCONSUL GUANGZHOU 9216  
RUEHHK/AMCONSUL HONG KONG 6240  
RUEHGH/AMCONSUL SHANGHAI 0025  
RUEHSH/AMCONSUL SHENYANG 5137  
RUCPDO/DEPT OF COMMERCE WASHDC  
RUEHGV/USMISSION GENEVA 1730

UNCLAS SECTION 01 OF 02 TAIPEI 001288

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STATE FOR EAP/RSP/TC AND EB/TPP, STATE PASS USTR FOR  
ALTBACH, WINELAND, AND STRATFORD, USDOC FOR  
4431/ITA/MAC/AP/OPB/TAIWAN/DUTTON, GENEVA FOR SHARK

E.O. 12958: N/A

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SUBJECT: TAIWAN TAKES NEXT STEP TOWARDS WTO SAFEGUARDS ON  
CHINESE TOWELS

REF: TAIPEI 942

11. Summary: Taiwan's International Trade Commission (ITC) held a public meeting April 7 to hear industry opinions on whether to recommend Chinese towel imports be subject to trade restrictions. Taiwan's towel industry argued that safeguard measures are necessary to save them from imminent collapse, while China's towel manufacturers countered that the Taiwan's towel industry's imminent demise is not a result of Chinese exports. The ITC will determine by April 17 whether to recommend safeguards. Taiwan could then decide whether or not to seek consultations with China in the WTO. Taiwan trade officials say they prefer to deal with the matter on a technical level, but the prospect of confronting China in the WTO may appeal to authorities wishing to demonstrate Taiwan's sovereignty. End Summary.

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The Decline of Taiwan Towel-makers  
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12. On March 17, ITC released its findings that the Taiwan towel manufacturing industry had been injured by competition from imported products. Since 2002, Taiwan's towel makers have seen their share of the domestic market drop from 14% to 8%. In 2006, only 60 Taiwan firms produced towels for the domestic market, down from 200 in 2002. China exported 3,700 tons of towels to Taiwan when the market was opened to Chinese exports in 2002, accounting for 45% of the market. In 2005, Chinese imports increased to 6,700 tons and a 70% market share.

13. The ITC public meeting is the first step in determining whether to recommend that the Ministry of Economic Affairs (MOEA) impose safeguard measures and which safeguard measures would best protect local industry. Representatives from the Taiwan towel manufacturers associations requested Taiwan authorities impose a 189% tariff on Chinese towel imports (the current tariff is 10.5%) and set an annual import quota of 3,300 tons. The Chinese towel industry, represented by a Mainland lawyer (Lin Chien-hwei) and a Taiwanese towel importer, argued that the Taiwan towel industry had been in decline for over ten years, with many producers moving abroad. The local towel market was dominated by imports even before China began exporting in 2002, argued Lin.

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## Safeguards or Dumping Duties?

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¶4. Bureau of Foreign Trade (BOFT) staff expect the ITC will submit its recommendations to MOEA by April 17. Minister of Economic Affairs Huang must then decide whether to request consultations with China in the WTO that could lead to the imposition of safeguard measures. On April 12, press reports suggested that the ITC would recommend increasing tariffs on Chinese towels but that the suggested rate had not been determined.

¶5. At the same time, the Ministry of Finance (MOF) is currently investigating whether Chinese towel manufacturers are engaged in dumping. This is the first time Taiwan has initiated an anti-dumping investigation against China, although other investigations have led to anti-dumping measures against other trading partners. MOF previously announced it would conclude its investigation by May 26.

¶6. Taiwan towel manufacturers hope MOEA will agree to pursue safeguard measures because such measures do require evidence to show uncompetitive practices on the part of Chinese exporters, only that Taiwan towel manufacturers have been injured by competition from imports. BOFT experts tell AIT they would prefer anti-dumping measures, if appropriate, in light of the temporary nature and eventual cost of safeguards. However, they added an additional benefit of a safeguard action would be to establish the WTO consultation mechanism between Chinese Taipei and China as equal WTO members. According to BOFT, there has been no discussion of

TAIPEI 00001288 002 OF 002

this case between Chinese and Taiwan officials.

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## Tweaking China too good to Resist?

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¶7. Comment: If ITC recommends safeguard actions, Chinese Taipei is within its rights as a WTO member to request consultations with China on this issue. If so, it would be the first time Chinese Taipei and China would enter consultations under the WTO. In 2003, Chinese Taipei requested to join as a third party a U.S.-filed case against China's semi-conductor VAT. That request was rejected by China. Given China's political sensitivities about Taiwan sovereignty, it is not clear that China would agree to enter consultations with Chinese Taipei on the towel import issue. BOFT staff are keen to manage this dispute on a technical level and are wary of directly confronting China in the WTO. If the ITC officially recommends safeguards, the final decision will be made by MOEA Minister Huang, a political appointee without a strong technocratic background, in consultation with the Mainland Affairs Council and the National Security Council. The temptation to confront China in the WTO to demonstrate Taiwan sovereignty may be too great to resist. End Comment.

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